UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/FPA/1998/12
17 July 1998

ORIGINAL: ENGLISH

Third regular session 1998
14-16 and 21-22 September, New York
Item 9 of the provisional agenda
UNFPA

# UNITED NATIONS POPULATION FUND

## PROGRESS REPORT ON IMPLEMENTATION OF THE 1998-1999 BIENNIAL SUPPORT BUDGET

Report of the Executive Director

## I. INTRODUCTION

1. This report is submitted in response to Executive Board decision 97/26, paragraph 7, adopted at the third regular session 1997, which requested the Executive Director to report to the Board at its third regular session 1998 on the progress in implementing the 1998-1999 biennial support budget, taking into account relevant developments, as well as foreseeable trends with regard, inter alia, to the income level for 1998 and the projections for 1999, the expected level of programme expenditure in 1998, as well as the United Nations reform process. The report is divided into six sections, with section I serving as an introduction. Section II deals with the income situation and forecast for the biennium 1998-1999; expenditures and their breakdown are given in section III; implications of the United Nations reform process are traced in section IV; progress in implementing the biennial budget is provided in section V; and section VI is the conclusion.

2. The 1998-1999 biennial support budget (document DP/FPA/1997/14) was submitted for consideration by the Executive Board at the third regular session 1997, and was subsequently approved in decision 97/26. The approved net appropriation totals $127.5 million and includes the creation of 53 new posts, all in the field, 7 of them corresponding to new UNFPA Representative

posts (including 2 posts transferred from headquarters to the field). Decision 97/26, inter alia, urged the Executive Director to review the climate of uncertainty regarding future income when filling the seven new UNFPA Representative posts included in the budget, and also requested that an oral report be presented to the Board at the second regular session 1998 on the "criteria and mechanisms to be used for any readjustment to the biennial support budget for 1998-1999 in the event of a significant shortfall in income" (para. 8).

3. UNFPA reported on those matters at the second regular session. The Executive Board took note of the Fund's reports, and, in decision 98/8, authorized the Executive Director to begin the recruitment of the new UNFPA Representatives already approved in decision 97/26.

## II. INCOME SITUATION AND FORECAST FOR THE BIENNIUM 1998-1999

4. Despite very difficult economic circumstances, many donors have continued to demonstrate their commitment to the goals of the Programme of Action of the International Conference on Population and Development (ICPD) and to the work of UNFPA by maintaining, and in some cases increasing, their level of contributions in their national currency. In United States dollars, the Fund's total income ranged from a high of $329.8 million in 1995, the year immediately following the ICPD, to $328.8 million in 1996 and $317 million in 1997. This decline in total income was primarily due to reductions in the contributions of a few donors and to losses resulting from unfavourable currency exchange rates.

5. After extensive discussions at the annual session 1998, the Executive Board agreed to the Fund's projected regular resource income of $310 million in 1998, including contributions from private foundations, primarily from the United Nations Foundation. The anticipated total resource income for 1998, including regular, multi-bilateral and other resources, is $335 million. The current estimate of income from regular resources, including private foundations, for 1999 is $332 million and the total from all sources is currently estimated to be $357 million, as contained in the work plan for the period 1999-2002. As approved by the Executive Board at its annual session 1998, the estimated income for the biennium 1998-1999 amounts to $642 million from regular resources, and $692 million from all sources, including regular, multi-bilateral, private foundations and others.

6. Other income to the UNFPA general fund includes investment income and gains/losses on currency exchange. Temporary surplus funds, as well as funds in the operational reserve, are placed in short-term financial instruments. The level of surplus funds and income derived from them is reliant on the rate of implementation of UNFPA programmes, as well as the rate of receipt of contributions. Since project implementation rates have improved significantly over the past few years, the volume of investable funds has decreased resulting in lower investment income. Exchange gains and losses may result from actual currency transactions, the revaluation of pledges, or the revaluation of local currency balances in operating fund accounts. The currency of record is the

United States dollar; however, a majority of financial transactions occur in other currencies resulting in gains and losses against the dollar. During the 1994-1995 biennium, UNFPA realized net gains on currency exchange of $0.9 million; however, net losses totalling $5.2 million were recorded in the 1996-1997 biennium.

7. The timing of receipt of contributions, aside from the currency exchange implications as described above, is crucial from a cash-flow management perspective. For example, the late receipt of certain 1996 contributions forced UNFPA to draw down approximately $20 million from the operational reserve to finance ongoing operations into January of 1997. Since then, UNFPA has made great strides in cash-flow management, in part by improving the rate of receipt of contributions.

8 It is important to underscore the issue of resource mobilization in the context of income forecasts and their implications for the support budget and programme delivery. In this regard, UNFPA presented a conference room paper (DP/FPA/1998/CRP.2) at the second regular session 1998, which mapped out a resource mobilization strategy based on four primary objectives: (a) to ensure predictable, adequate and stable growth of core resources; (b) to supplement core resources with non-core funding; (c) to expand the donor base; and (d) to increase the amount of resources currently provided by the programme countries themselves. In order to achieve these objectives, UNFPA plans to carry out carefully targeted advocacy and information campaigns aimed at building both public and parliamentary support for proactive population agendas.

## III. EXPENDITURES AND THEIR BREAKDOWN

9 UNFPA spends the majority of its funds for programmes and projects, especially at the country level. During most of the past decade, UNFPA has successfully maintained project expenditure at around 72 to 73 per cent of total expenditures. Similarly, project expenditures as a percentage of programme expenditure have also been maintained at close to 90 per cent. The resource utilization rate (the ratio of programme expenditure to programmable resources) for regular resources has also increased from 90 per cent in 1996 to 95 per cent in 1997. This high level of programme delivery testifies to the Fund's growing ability to deliver increasing levels of population assistance. Another indication of the Fund's improvement in programme delivery is the reduction of unexpended resources during the past few years. Successively, UNFPA has increased its capacity to deliver quality programmes, and the balance of unexpended resources has been progressively reduced and was $11.5 million as of 31 December 1997. The goal is to eliminate the balance by the end of the 1998-1999 biennium. The programme expenditures for 1998 are estimated at $252 million, and it is expected that UNFPA will be able to achieve this target by attaining a high delivery rate as evidenced in recent years.

10. Another component of total expenditure is the biennial support budget, which finances the support network required to carry out the mandated activities of UNFPA. Historically, the support

budget has grown marginally with the increasing income of the Fund, remaining within a relatively narrow range of between 16 and 20 per cent of income. Since 1994, UNFPA has maintained the "administrative" portion of the budget as a percentage of income at about 4.0 per cent, down from an average of about 6.0 per cent in previous years. Furthermore, headquarters costs have remained relatively constant since 1991. This confirms the Fund's continued commitment to increase the proportion of its income in support of programme activities.

## IV. IMPLICATIONS OF THE UNITED NATIONS REFORM PROCESS IN THE BIENNIAL SUPPORT BUDGET

11. UNFPA fully participates in the United Nations system-wide efforts to enhance coordination and to promote the Secretary-General's reform initiative, including through its participation and active involvement in the United Nations Development Group and its committees, as well as other mechanisms. However, the financial benefits and/or gains that were expected to accrue from the reform initiative have yet to be realized. By contrast, for a small organization like UNFPA, the additional demands for coordinated efforts at the field level have put an increased burden on the limited resources of the Fund's country offices. As members of the country teams under the direction of the United Nations Resident Coordinator, UNFPA staff at the field level are actively participating in system-wide plans and programmes and the coordinated follow-up to the recent series of United Nations global conferences. However, attendance at a high number of coordination meetings, theme group meetings and the United Nations Development Assistance Framework meetings has placed additional pressures on the Fund's small staff who, at the same time, must fulfil their mandated role of delivering UNFPA assistance to countries.

12. At the headquarters level, UNFPA staff actively participate in a number of global-level, inter-agency working groups and other coordination mechanisms which further strain staff capacity. Additionally, UNFPA has to fulfill reporting requirements established by various legislative bodies such as the General Assembly, the Economic and Social Council (ECOSOC), the Commission on Population and Development (CPD) and the Executive Board, among others.

13. UNFPA has worked closely with its partner organizations, including UNDP and UNICEF, in an effort to move towards: (a) formulating a much-needed common approach to issues such as budget harmonization, common premises and common services, and (b) implementing a sound process to share information. For example, UNFPA has consistently coordinated with UNDP with regard to common premises in the field and currently shares premises with UNDP and other Joint Consultative Group on Policy (JCGP) member agencies in a majority of countries in every region. Furthermore, UNFPA relies on UNDP for a number of administrative support services in all UNFPA country offices, thus eliminating the need for parallel staff. Given that UNFPA has already availed itself of common services and premises through its close ties with UNDP, with concomitant budget savings already being realized, the potential for realizing further economies in these areas is limited.

## V. PROGRESS IN IMPLEMENTING THE 1998-1999 BIENNIAL SUPPORT BUDGET

14. The UNFPA budget strategy for the biennium 1998-1999, as elaborated in DP/FPA/1997/14 and approved by the Executive Board at the third regular session 1997, is to enable UNFPA to respond effectively and responsibly to new policy and programme requirements in the current biennium and beyond. The major thrust of the approved budget is the strengthening of the country offices, while keeping the Fund's management and administration costs at the lowest possible levels. The budget for country offices is an increase over the previous biennium while that for headquarters is a decrease. Similarly, the budget dedicated to programme support has been increased, the budget for the management and administration of the organization has been decreased.

15. The Executive Board approved, in decision 97/26, a net appropriation of $127.5 million for the biennium 1998-1999. The thrust of the budget towards the field is reflected in the fact that 51.3 per cent of gross appropriations are for the country offices. Likewise, over 70 per cent of gross appropriations are for programme support and under 30 per cent for management and administration of the organization (see table below).

Biennial support budget 1998-1999, by appropriation line

| | Thousands of U.S. dollars | As a % of total gross appropriation |
|---|---|---|
| Programme support | | |
| Country offices | 73,484.2 | 51.3% |
| Headquarters | 26,811.5 | 18.7% |
| Subtotal | 100,295.7 | 70.0% |
| Management and administration of the org. | 42,959.7 | 30.0% |
| Total gross appropriations | 143,255.4 | 100.0% |
| Less: Estimated income to the budget | 15,707.0 | |
| Estimated net appropriations | 127,548.4 | |

16. Since the start of the current biennium, UNFPA has been implementing its support budget in line with the resource situation to the maximum extent possible. Without eroding its limited and critical staff resources (which account for the largest portion of the organization's support budget), UNFPA has imposed on itself, with the help of measures described in paragraph 17 below, the objective of maintaining, in 1998, net expenditures at the same level as in 1997 (in real terms), which would imply a 1998 net expenditure of around $60.5 million. This objective signifies a reduction of $1 million against the already stringent budgeted expenditure of approximately $61.5 million for 1998. Further, UNFPA will continue to strive to reduce actual net expenditure for the 1998-1999 biennium to about $125.5 million, representing a total savings of $2 million against the Executive Board's approved, but stringent, net appropriation of $127.5 million. In relation to the expected income for the biennium 1998-1999, noted by the Executive Board at the annual session 1998, an expenditure level of $125.5 million will represent 19.5 per cent of regular resources, including contributions from private foundations, and 18.1 per cent of total resources. Thus, UNFPA will do everything feasible to keep the support budget expenditures as low as possible and will keep them under the agreed 20 per cent limit as over the last several biennia. If a higher-than-anticipated level of income is realized by UNFPA in 1999, as is expected in view of the ICPD+5 process that is under way, this ratio could become smaller for the biennium 1998-1999.

17. Since the beginning of the current year, UNFPA has been applying a number of cost-cutting measures, which, in combination, are expected to bring UNFPA to the desired expenditure objective described in the previous paragraph. Such measures are partially influenced by the review of the actual savings obtained in the 1996-1997 biennial support budget. These include: (a) optimizing the post vacancy rate by carefully analyzing, and exercising optimal timing in filling, both the vacancies that are likely to arise during the current biennium and the new posts in the field approved by the Executive Board in the current biennial support budget; and (b) efficiently utilizing operational expenses and streamlining operations: some of the Fund's operational expenses can be curtailed in the short term through management decisions. Examples of such measures include reassessing travel plans and mission planning; reconsidering training events; reducing through better planning the need for temporary assistance and consultancies. While the individual savings coming from each of these measures may not be significant, taken together they will contribute to the attainment of the Fund's budgetary objectives.

18. Additionally, UNFPA will try to generate higher levels of income, as credit to the biennial support budget, by: (a) implementing revised cost-recovery mechanisms -- UNFPA has recently conducted an analysis on the issue of cost recovery from multi-bilateral funding, and will present to the Board at the third regular session a report on this matter (see document DP/FPA/1998/11) that makes a number of proposals to implement a fair cost-recovery system which will potentially raise the income credited to the biennial support budget coming from support to multi-bilateral activities, if approved as presented; and (b) intensifying procurement activities for third parties -- this source of income to the budget has some potential for growth within the limits of the Fund's mission.

19. UNFPA is a relatively small organization compared to other United Nations funds and programmes, and it carries out its activities through comparatively fewer and smaller country offices. During their field visits, Executive Board members have had the opportunity to observe situations of under staffing in some of the UNFPA country offices; similar observations were also made by various evaluation and audit missions. The emphasis on national execution and on the need to increase local absorptive capacity in African and other least developed countries necessitates capacity building of UNFPA country offices in terms of staff, management competence, training and other capacities to enable them to strengthen and/or develop, in turn, the capacities of programme countries to formulate, implement, monitor and evaluate programmes, in line with the ICPD Programme of Action. One of the Fund's major challenges is to balance these growing needs with the strict cost control described in previous paragraphs. In addition, the Fund's small size limits the possibility of further redeployment of resources from headquarters. Despite this, UNFPA has managed to transfer a few posts from headquarters to the field. However, the cost reduction to be achieved is very significant when taking into account the fact that the expenditure objectives include the increased cost corresponding to the appointment of a number of new posts and the setting up of new support offices, as approved by the Executive Board. Given that the Fund's priority is to reinforce field operations, it must be recognized that most of the cost-containing efforts will have to be effected at headquarters, thereby placing enormous pressures on the Fund's declining staff resources at the headquarters level.

## VI. CONCLUSION

20. During the recent past, UNFPA has had to face the dual pressures of limited resources and growing demands by programme countries to achieve the ICPD goals. Prudent financial management of these limited resources has allowed the Fund to continue to fulfil its role as the lead agency for operationalizing population and reproductive health activities, while keeping expenditure under reasonable limits. UNFPA will continue this in the immediate future. UNFPA is now more strategically focused than ever, both in its programme and its resource allocations. It is also aware of the budget priorities and strategic issues raised by the Executive Board, and has incorporated those exigencies in its biennial budget for the current biennium. The Fund will continue to exercise spending controls and will use these as a key policy tool to contain the support budget. The Fund's budget strategies are designed to promote long-term fiscal progress, ensuring that future support budgets are better positioned to withstand future resource and other pressures.

21. The Executive Board may wish to take note of this report.

---